

production, and lease issuance conditions in § 203.40 and paragraph (a) of this section:

Example 1: If you have a qualified deep well that is an original well with a perforated interval the top of which is 16,000 feet TVD SS, your lease earns an RSV of 15 BCF under paragraph (b)(1) of this section. This RSV must be applied to gas production from all qualified wells on your lease, as prescribed in §§ 203.43 and 203.48. However, if the top of the perforated interval is 18,500 feet TVD SS, the RSV is 25 BCF according to paragraph (b)(3) of this section.

Example 2: If you have a qualified deep well that is a sidetrack, with a perforated interval the top of which is 16,000 feet TVD SS and a sidetrack measured depth of 6,789 feet, we round the measured depth to 6,800 feet and your lease earns an RSV of 8.08 BCF under paragraph (b)(2) of this section. This RSV would be applied to gas production from all qualified wells on your lease, as prescribed in §§ 203.43 and 203.48.

Example 3: If you have a qualified deep well that is a sidetrack, with a perforated interval the top of which is 16,000 feet TVD SS and a sidetrack measured depth of 19,500 feet, your lease earns an RSV of 15 BCF. This RSV would be applied to gas production from all qualified wells on your lease, as prescribed in §§ 203.43 and 203.48, even though 4 BCF plus 600 MCF per foot of sidetrack measured depth equals 15.7 BCF because paragraph (b)(2) of this section limits the RSV for a sidetrack at the amount an original well to the same depth would earn.

Example 4: If you have drilled and produced a deep well with a perforated interval the top of which is 16,000 feet TVD SS before March 26, 2003 (and the well therefore is not a qualified well and has earned no RSV under this section), and later drill:

(i) A deep well with a perforated interval the top of which is 17,000 feet TVD SS, your lease earns no RSV (see paragraph (c)(1) of this section);

(ii) A qualified deep well that is an original well with a perforated interval the top of which is 19,000 feet TVD SS, your lease earns an RSV of 10 BCF under paragraph (c)(2) of this section. This RSV would be applied to gas production from qualified wells on your lease, as prescribed in §§ 203.43 and 203.48; or

(iii) A qualified deep well that is a sidetrack with a perforated interval the top of which is 19,000 feet TVD SS, that has a sidetrack measured depth of 7,000 feet, your lease earns an RSV of 8.2 BCF under paragraph (c)(3) of this section. This RSV would be applied to gas production from qualified wells

on your lease, as prescribed in §§ 203.43 and 203.48.

Example 5: If you have a qualified deep well that is an original well with a perforated interval the top of which is 16,000 feet TVD SS, and later drill a second qualified well that is an original well with a perforated interval the top of which is 19,000 feet TVD SS, we increase the total RSV for your lease from 15 BCF to 25 BCF under paragraph (c)(2) of this section. We will apply that RSV to gas production from all qualified wells on your lease, as prescribed in §§ 203.43 and 203.48. If the second well has a perforated interval the top of which is 22,000 feet TVD SS (instead of 19,000 feet), the total RSV for your lease would increase to 25 BCF only in 2 situations: (1) If the second well was a phase 1 ultra-deep well, *i.e.*, if drilling began before May 18, 2007, or (2) the exception in § 203.31(b) applies. In both situations, your lease must be partly or entirely in less than 200 meters of water and production must begin on this well before May 3, 2009. If drilling of the second well began on or after May 18, 2007, the second well would be qualified as a phase 2 or phase 3 ultra-deep well and, unless the exception in § 203.31(b) applies, would not earn any additional RSV (as prescribed in § 203.30), so the total RSV for your lease would remain at 15 BCF.

Example 6: If you have a qualified deep well that is a sidetrack, with a perforated interval the top of which is 16,000 feet TVD SS and a sidetrack measured depth of 4,000 feet, and later drill a second qualified well that is a sidetrack, with a perforated interval the top of which is 19,000 feet TVD SS and a sidetrack measured depth of 8,000 feet, we increase the total RSV for your lease from 6.4 BCF $[4 + (600 * 4,000)/1,000,000]$ to 15.2 BCF $\{6.4 + [4 + (600 * 8,000)/1,000,000]\}$ under paragraphs (b)(2) and (c)(3) of this section. We would apply that RSV to gas production from all qualified wells on your lease, as prescribed in §§ 203.43 and 203.48. The difference of 8.8 BCF represents the RSV earned by the second sidetrack that has a perforated interval the top of which is deeper than 18,000 feet TVD SS.

[73 FR 69510, Nov. 18, 2008]

§ 203.42 What conditions and limitations apply to royalty relief for deep wells and phase 1 ultra-deep wells?

The conditions and limitations in the following table apply to royalty relief under § 203.41.

§ 203.43

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If . . .	Then . . .
(a) Your lease has produced gas or oil from a well with a perforated interval the top of which is 18,000 feet TVD SS or deeper,	your lease cannot earn an RSV under § 203.41 as a result of drilling any subsequent deep wells or phase 1 ultra-deep wells.
(b) You determine RSV under § 203.41 for the first qualified deep well or qualified phase 1 ultra-deep well on your lease (whether an original well or a sidetrack) because you drilled and produced it within the time intervals set forth in the definitions for qualified wells,	that determination establishes the total RSV available for that drilling depth interval on your lease (<i>i.e.</i> , either 15,000–18,000 feet TVD SS, or 18,000 feet TVD SS and deeper), regardless of the number of subsequent qualified wells you drill to that depth interval.
(c) A qualified deep well or qualified phase 1 ultra-deep well on your lease is within a unitized portion of your lease,	the RSV earned by that well under § 203.41 applies only to production from qualified wells on or allocated to your lease and not to other leases within the unit.
(d) Your qualified deep well or qualified phase 1 ultra-deep well is a directional well (either an original well or a sidetrack) drilled across a lease line,	the lease with the perforated interval that initially produces earns the RSV. However, if the perforated interval crosses a lease line, the lease where the surface of the well is located earns the RSV.
(e) You earn an RSV under § 203.41,	that RSV is in addition to any RSS for your lease under § 203.45 that results from a different wellbore.
(f) Your lease earns an RSV under § 203.41 and later produces from a well that is not a qualified well,	the RSV is not forfeited or terminated, but you may not apply the RSV under § 203.41 to production from the non-qualified well.
(g) You qualify for an RSV under paragraphs (b) or (c) of § 203.41,	you still owe minimum royalties or rentals in accordance with your lease terms.
(h) You transfer your lease,	unused RSVs transfer to a successor lessee and expire with the lease.

Example to paragraph (b): If your first qualified deep well is a sidetrack with a perforated interval whose top is 16,000 feet TVD SS and earns an RSV of 12.5 BCF, and you later drill a qualified original deep well to 17,000 feet TVD SS, the RSV for your lease remains at 12.5 BCF and does not increase to 15 BCF. However, under paragraph (c) of § 203.41, if you subsequently drill a qualified deep well to a depth of 18,000 feet or greater TVD SS, you may earn an additional RSV.

[73 FR 69512, Nov. 18, 2008]

§ 203.43 To which production do I apply the RSV earned from qualified deep wells or qualified phase 1 ultra-deep wells on my lease?

(a) You must apply the RSV prescribed in § 203.41(b) and (c) to gas volumes produced from qualified wells on or after May 3, 2004, reported on the OGOR–A for your lease under § 216.53, as and to the extent prescribed in §§ 203.43 and 203.48.

(1) Except as provided in paragraph (a)(2) of this section, all gas production from qualified wells reported on the OGOR–A, including production that is not subject to royalty, counts toward the lease RSV.

(2) Production to which an RSS applies under §§ 203.45 and 203.46 does not count toward the lease RSV.

(b) This paragraph applies to any lease with a qualified deep well or qualified phase 1 ultra-deep well when no part of the lease is within an MMS-

approved unit. Subject to the price conditions in § 203.48, you must apply the RSV prescribed in § 203.41 as required under the following paragraphs (b)(1) and (b)(2) of this section.

(1) You must apply the RSV to the earliest gas production occurring on and after the later of:

(i) May 3, 2004, for an RSV earned by a qualified deep well or qualified phase 1 ultra-deep well on a lease that is located entirely or partly in water less than 200 meters deep;

(ii) May 18, 2007, for an RSV earned by a qualified deep well on a lease that is located entirely in water more than 200 meters deep; or

(iii) The date that the first qualified well that earns your lease the RSV begins production (other than test production).

(2) You must apply the RSV to only gas production from qualified wells on your lease, regardless of their depth, for which you have met the requirements in § 203.35 or § 203.44.

Example 1: On a lease in water less than 200 meters deep, you began drilling an original deep well with a perforated interval the top of which is 18,200 feet TVD SS in September 2003, that became a qualified deep well in July 2004, when it began producing and using the RSV that it earned. You subsequently drill another original deep well with a perforated interval the top of which is 16,600 feet TVD SS, which becomes a qualified deep well when production begins in August 2008.